

**Memorandum**

Date

MAY 29 2002

From

*Thomas D. Roslewicz*  
Thomas D. Roslewicz  
Deputy Inspector General  
for Audit Services

Subject

Review of Washington State's Administrative Costs Claimed for Medicaid School-Based Health Services in State Fiscal Year 2000 (A-10-01-00011)

To

Neil Donovan  
Director, Audit Liaison Staff  
Centers for Medicare & Medicaid Services

As part of self-initiated audits by the Office of Inspector General, we are alerting you to the issuance of the subject final audit report within 5 business days from the date of this memorandum. A copy of the report is attached. This report is one in a series of reports in our multi-State initiative focusing on administrative costs claimed for Medicaid school-based health services. We suggest you share this report with the Centers for Medicare & Medicaid Services (CMS) components involved in program integrity, provider issues, and State Medicaid agency oversight, particularly the Center for Medicaid and State Operations.

The objective of our review was to determine whether the administrative expenditures claimed by the Washington State Department of Social and Health Services (State) for school-based health services for the period July 1, 1999 through June 30, 2000 (State Fiscal Year (SFY) 2000) were reasonable, allowable, and adequately supported.

We found that the State did not properly implement and monitor the school-based health services administrative match program (Program). As a result, in SFY 2000 the State:

- (1) claimed \$527,102 in Federal financial participation (FFP) based upon unallowable overhead costs for three school districts;
- (2) utilized non-Medicaid program data to allocate costs between Medicaid and non-Medicaid students; and
- (3) allowed invalid time studies to be used to claim Federal reimbursement.

We recommended the State:

- (1) refund the FFP of \$527,102 for the payments of unallowable overhead costs;
- (2) ensure overhead costs claimed are allowable, allocable, and reasonable;
- (3) ensure Program costs allocated to Medicaid are based on the actual Medicaid population at each school district;
- (4) ensure time studies are properly conducted and reviewed in accordance with the State "School Administrative Match Program Manual;" and

- (5) recalculate the SFYs 2000 and 2001 Program claims for each school district, using appropriate overhead costs and actual Medicaid eligibility data, and refund the FFP for inappropriately claimed amounts.

In written response to our draft report, the State concurred with our findings and recommendations regarding overhead costs and time studies. The State, however, disagreed with our findings and recommendations to allocate Program costs to Medicaid based on the actual Medicaid population at each school district. The State asserted that its administrative claiming methodology was approved by CMS, the method used approximated the Medicaid population, and it would be cost prohibitive to develop data on the actual Medicaid population at each school district.

The CMS publication entitled, “Medicaid and School Health: A Technical Assistance Guide,” dated August 1997, stated “...payment may only be made for the percentage of time actually attributable to the Medicaid-eligible individuals.” This clearly indicated that the actual Medicaid population data should be used to allocate Program costs to Medicaid. We summarized the State’s comments and responded to those comments at the end of the “FINDINGS AND RECOMMENDATIONS” section of the report, and included the comments in their entirety as an Appendix to the report.

Any questions or comments on any aspect of this memorandum are welcome. Please address them to George M. Reeb, Assistant Inspector General for Centers for Medicare and Medicaid Division, at (410) 786-7104 or Lori Ahlstrand, Regional Inspector General for Audit Services, Region IX, (415) 437-8360.

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF WASHINGTON STATE'S  
ADMINISTRATIVE COSTS CLAIMED  
FOR MEDICAID SCHOOL-BASED  
HEALTH SERVICES IN  
STATE FISCAL YEAR 2000**



**JANET REHNQUIST  
Inspector General**

**MAY 2002  
A-10-01-00011**



Office of Audit Services  
Region IX  
50 United Nations Plaza, Room 171  
San Francisco, CA 94102  
(415) 437-8360

CIN: A-10-01-00011

Mr. Thomas W. Bedell  
Deputy Assistant Secretary  
Medical Assistance Administration  
623 8<sup>th</sup> Avenue SE  
Olympia, Washington 98504

MAY 31 2002

Dear Mr. Bedell:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled, "Review of Washington State's Administrative Costs Claimed for Medicaid School-Based Health Services in State Fiscal Year 2000." Your attention is invited to the audit findings and recommendations contained in the report.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination. Should you have any questions, please direct them to the HHS action official.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act (see 45 CFR part 5). As such, within 10 business days after the final report is issued, it will be posted on the world wide web at <http://oig.hhs.gov>. To facilitate identification, please refer to Common Identification Number A-10-01-00011 in all correspondence relating to this report.

Sincerely,

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosures - as stated

**Direct Reply to HHS Action Official:**

Linda Ruiz, Regional Administrator  
Centers for Medicare & Medicaid Services, Region X  
Department of Health and Human Services  
2201 6<sup>th</sup> Avenue, MS-40  
Seattle, Washington 98121



MAY 31 2002

Region IX  
Office of Audit Services  
50 United Nations Plaza  
Room 171  
San Francisco, CA 94102

Common Identification Number: A-10-01-00011

Mr. Thomas W. Bedell  
Deputy Assistant Secretary  
Medical Assistance Administration  
623 8<sup>th</sup> Avenue SE  
Olympia, Washington 98504

Dear Mr. Bedell:

This final report presents the results of our review of Washington State's administrative costs claimed for Medicaid school-based health services in State Fiscal Year (SFY) 2000. The objective of our review was to determine whether the administrative expenditures claimed by the Washington State Department of Social and Health Services (State) for school-based health services in SFY 2000 were reasonable, allowable, and adequately supported.

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## EXECUTIVE SUMMARY

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The State did not properly implement and monitor the school-based health services administrative match program (Program). We determined the State:

- (1) claimed \$527,102 in Federal matching funds based upon unallowable overhead costs for three school districts;
- (2) utilized non-Medicaid program data to allocate costs between Medicaid and non-Medicaid students; and
- (3) allowed invalid time studies to be used to claim Federal reimbursement.

Due to the lack of Medicaid information by school district and structure of the time studies, the effect of issues two and three (shown above) on the State's claim for Federal matching funds could not be determined.

All three issues were the result of inadequate or nonexistent policies and procedures to ensure that claims were submitted in compliance with applicable laws and regulations. The State had little incentive to monitor the Program because State resources were not used to fund the Program. Instead, the school districts were required to provide the State's share of matching

funds. We believe that proper and timely reviews of claims and supporting documentation by the State would help to ensure that unallowable costs are properly identified and removed from the claims for Federal financial participation (FFP).

We recommended the State:

- (1) refund the FFP of \$527,102 for the payments of unallowable overhead costs;
- (2) ensure overhead costs claimed are allowable, allocable, and reasonable;
- (3) ensure Program costs allocated to Medicaid are based on the actual Medicaid population at each school district;
- (4) ensure time studies are properly conducted and reviewed in accordance with the State "School Administrative Match Program Manual;" and
- (5) recalculate the SFYs 2000 and 2001 Program claims for each school district, using appropriate overhead costs and actual Medicaid eligibility data, and refund the FFP for inappropriately claimed amounts.

In written response to our draft report, the State concurred with our findings and recommendations regarding overhead costs and time studies. However, the State disagreed with our findings and recommendations regarding allocation of Program costs to Medicaid based on the actual Medicaid population. The State asserted that its administrative claiming methodology was approved by the Centers for Medicare & Medicaid Services (CMS), the method used approximated the Medicaid population, and it would be cost prohibitive to develop data on the actual Medicaid population at each school district.

The CMS publication entitled, "Medicaid and School Health: A Technical Assistance Guide," dated August 1997, stated "...payment may only be made for the percentage of time actually attributable to the Medicaid-eligible individuals." This clearly indicated that actual Medicaid population data should be used to allocate Program costs to Medicaid.

We summarized the State's comments and responded to those comments at the end of the "FINDINGS AND RECOMMENDATIONS" section of the report. The complete text of the State's comments is included as an Appendix to the report.

In the "OTHER MATTERS" section of the report, we noted that consultants were reimbursed a percentage of the total amount claimed by the school districts. In addition, school district officials were relatively unaware of the procedures necessary to properly determine and report administrative costs, relying almost entirely on the consultants. The combination of a percentage-based reimbursement agreement and the transfer of Program responsibilities provided the consultants with an attractive incentive to maximize a school district's claim for reimbursement.

For the three school districts reviewed, we found that these districts received all the funds claimed on their behalf and used those funds for a variety of activities, including hiring

additional health clerks, upgrading student computer facilities, and providing after-school and summer educational programs for low-performing and at-risk students.

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## INTRODUCTION

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### BACKGROUND

Title XIX of the Social Security Act authorizes Federal grants to states for Medicaid programs to provide medical assistance to persons with limited income and resources. Each state Medicaid program is administered in accordance with a state plan approved by CMS. Although a state has considerable flexibility in designing its state plan and operating its Medicaid program, it must comply with broad Federal requirements.

While Medicaid programs are administered by the states, they are jointly financed by the Federal and state governments. States incur expenditures for medical assistance payments to providers that furnish medical services to Medicaid-eligible individuals. The Federal Government pays its share of these medical assistance expenditures to each state according to a prescribed formula. In addition, the Federal Government participates in the costs for administration of the Program. The FFP for administration is a fixed rate of 50 percent for all states.

The Medicaid program, recognizing the important role school health services can play, has supported school-centered health care as an effective method of providing access to essential medical care to eligible children. The school-based health services program was designed to promote access to health care for eligible students in public school systems, thereby, preventing costly or long-term health care problems. The services include routine preventive health care, primary treatment, and services for children with special needs. Further, these services may be provided at a school-based clinic, a linked clinic, or a private clinic in collaboration with school personnel.

The Social Security Act permits payment of FFP for administrative claims for the proper and efficient administration of the State plan. Administrative expenditures incurred for school-based health services are considered appropriate to properly and efficiently administer the State plan. A school district may be eligible to receive payment for activities performed in support of the Program regardless of whether the district has school-based health clinics or performs any direct services. The Program covers Medicaid items such as outreach, eligibility intake, information and referral, health service coordination and monitoring, and interagency coordination. School districts are reimbursed for these activities under the Program.

The State, in implementing the Program, entered into interagency agreements with 150 school districts located in Washington State. The school districts were delegated the responsibility of administering the Program. For the 12 months ended June 30, 2000, the State claimed

\$28 million in FFP for the \$56 million in Program expenditures incurred by the 150 school districts.

During the period of our review, the state, acting as a pass-through entity between the Federal Government and school districts, did not expend any funds for the Program. To meet the Program's matching requirements, the State used Program costs paid by the school districts. Any FFP received by the State for the Program was passed on to the school districts as reimbursement for part of their costs.

The CMS issued two technical guides that summarize the requirements States must meet in order to obtain reimbursement for Program expenditures. The guides are: "Medicaid and School Health: A Technical Assistance Guide," dated August 1997, and the February 2000 draft, "Medicaid School-Based Administrative Claiming Guide." In addition, the State developed the "School Administrative Match Program Manual," which detailed the responsibilities of each school district as a condition of participation in the Program.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

Our review was conducted in accordance with generally accepted government auditing standards. The objective of our review was to determine whether the administrative expenditures incurred by the State for school-based health services in SFY 2000 were reasonable, allowable, and adequately supported. Of the approximately \$56 million in administrative expenditures incurred in SFY 2000, we reviewed expenditures, totaling \$11 million, claimed by three judgmentally-selected school districts.

To accomplish our objective, we conducted site reviews at the State and three school districts. We interviewed State Program officials to discuss their roles and State procedures in administering the Program. We also reviewed records supporting the State's claims for FFP.

In addition, we met with school district personnel and an outside consultant hired by one school district to operate its Program. We discussed claims procedures, reviewed supporting documentation, and obtained an understanding of the sampling methodologies used to determine the costs allocated to Medicaid.

We reviewed only those internal controls considered necessary to achieve our objectives. Our review was limited to obtaining an understanding of the State's administrative claim processing system for school-based health services.

Our fieldwork was conducted at the State's offices in Olympia, Washington, and the Tacoma, Pasco, and Spokane school districts during the period June through November 2001.



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## **FINDINGS AND RECOMMENDATIONS**

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We found the State did not properly implement and monitor the Program. As a result, the State: (1) claimed \$527,102 in Federal matching funds based upon unallowable overhead costs for three school districts, (2) utilized non-Medicaid program data to allocate costs between Medicaid and non-Medicaid students, and (3) allowed invalid time studies to be used to claim Federal reimbursement.

These issues were the result of inadequate or nonexistent policies and procedures to ensure that claims were submitted in compliance with applicable laws and regulations. The lack of adequate policies and procedures was compounded by the limited monitoring the State did of the Program. During the period of our review, one employee performed reviews and approved the expenditures submitted by the school districts. A second employee performed periodic on-site reviews, but did not verify the expenditures claimed were proper and supported. The on-site reviews were suspended when the second employee was transferred to another division within the State.

Moreover, the State had little incentive to closely monitor the Program because State monies were not used in the operation of the Program. With the school districts providing the State's share of matching funds required for FFP, the State acted only as a pass-through entity.

### **OVERHEAD**

For the three districts visited, we found unallowable overhead costs claimed of \$1,054,204 which resulted in an overpayment of \$527,102 in FFP. The overhead costs at two school districts included staff salaries that were claimed in duplicate; the costs were claimed as both a direct and indirect cost of the Program. The third district allocated overhead costs for employees who were not involved in the Program.

Office of Management and Budget (OMB) Circular A-87 states:

“A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

The duplicate and unrelated costs provided no benefit to the Program and, therefore, are unallowable for FFP. While the State provided guidance to the school districts regarding allowable overhead costs to be claimed, the unallowable costs were not identified because periodic reviews were not performed by the State to help ensure that school districts' overhead amounts were appropriate.

## **MEDICAID POPULATION RATIO**

We found that claims for reimbursement were not allocated based upon the Medicaid-eligible populations at each school district. Rather than providing school districts with Medicaid-eligible population statistics, the State allowed school districts to select one of the following five other alternatives to allocate Program costs to Medicaid:

- (1) The district-wide Free and Reduced Lunch rate,
- (2) The district-wide Free and Reduced Lunch rate for elementary schools only,
- (3) The county-wide number of children under 200 percent of poverty,
- (4) 100 percent for services targeted to students in the Early Childhood Education Program and/or Free and Reduced Lunch program, and
- (5) Any other reasonable, documentable methodology.

These five alternatives did not have a direct correlation to the actual school district's Medicaid-eligible populations and, therefore, were not valid methods to allocate Program costs.

The OMB Circular A-87 states:

“A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

The alternatives provided by the State were not related to the Medicaid program. The CMS's “Medicaid and School Health: A Technical Assistance Guide,” dated August 1997, required:

“When claiming for allowable administrative activities that are performed with respect to a population consisting of both Medicaid-eligibles and non-eligibles, payment may only be made for the percentage of time actually attributable to the Medicaid-eligible individuals.”

The school districts did not maintain information to develop Medicaid-eligible school population statistics. Furthermore, the State compiled Medicaid eligibility statistics by county rather than by school district. Based on the lack of available Medicaid information for each school district, unallowable charges could not be determined.

## **TIME STUDIES**

The State did not perform adequate reviews to help ensure the time studies performed at the school districts were conducted and completed in accordance with Program requirements. The studies were not always conducted in accordance with the prescribed methodology, nor were they properly evaluated by the school districts or the State. Included in the studies were unallowable activities that were not identified and excluded from the calculation of the claim for FFP.

The State's "School Administrative Match Program Manual" defined Program allowable activities. However, school district employees completing the time studies did not have an adequate understanding of the Program's requirements or the structure of the time study to accurately reflect their Medicaid administrative efforts. Further, many participants did not understand the prescribed activity codes or the amount of time required to record an allowable activity. We determined that activities unrelated to Medicaid covered services or a health issue were inappropriately classified as Medicaid reimbursable activities.

The State also required time studies to be "representative of overall workload patterns." However, in one instance, we found that school employees were directed to complete the time study during parent conference week to increase the amount of time spent communicating with parents.

Time studies represent an important record in supporting how much time employees spent performing Medicaid activities and were used to determine the share of costs allocated to the Program. Without complete and accurate records documenting allowable activities, there is no assurance that Medicaid was charged for only its fair share of costs. Due to the structure of the time studies, inappropriate time allocated to the Program could not be specifically identified, and therefore, the effect on the FFP claimed resulting from the use of invalid time studies could not be determined.

## **RECOMMENDATIONS**

We recommended the State:

- (1) refund the FFP of \$527,102 for the payments of unallowable overhead costs;
- (2) ensure overhead costs claimed are allowable, allocable, and reasonable;
- (3) ensure Program costs allocated to Medicaid are based on the actual Medicaid population at each school district;
- (4) ensure time studies are properly conducted and reviewed in accordance with the State "School Administrative Match Program Manual;" and
- (5) recalculate the SFYs 2000 and 2001 Program claims for each school district, using appropriate overhead costs and actual Medicaid eligibility data, and refund the FFP for inappropriately claimed amounts.

## **STATE'S COMMENTS**

In written response to our draft report, the State concurred with our findings and recommendations regarding overhead costs and time studies. However, the State disagreed with our findings and recommendations to use the actual Medicaid population at each school district to allocate costs to the Program. Specifically, the State asserted that CMS had approved its administrative claiming methodology and the method used approximated the Medicaid population.

The State also commented that it would be impossible to develop data on the actual Medicaid population at each school district because the data is not readily available. The State maintains Medicaid statistics by county, not by school district. The State indicated the implementation of our recommendation would be too costly and results would not be more accurate than its current methodology. The State also commented that CMS's 1997 Program guide was open to interpretation and the draft guidance developed in 2000 was not applicable to our audit period.

The complete text of the State's comments is included as an Appendix to the report.

## **OIG'S RESPONSE**

The CMS publication entitled, "Medicaid and School Health: A Technical Assistance Guide," dated August 1997, stated "...payment may only be made for the percentage of time actually attributable to the Medicaid-eligible individuals." This clearly indicated that the actual Medicaid population should be used to allocate Program costs to Medicaid. We agree that the CMS 2000 draft guide was not applicable when the State implemented its Program methodology for SFY 2000 and, therefore, we applied the CMS 1997 Program guide in making our audit determinations.

The State did not provide documentation to support its assertion that CMS approved the use of non-Medicaid data to allocate Program costs to Medicaid. Further, the State did not provide evidence to show that the five alternatives would produce the same results as using the Medicaid-eligible population. The Medicaid population used in allocating Program costs should be based on Medicaid eligibility standards, which included strict documentation and review requirements. The use of other program information as alternatives did not ensure that these Medicaid eligibility standards were met.

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## **OTHER MATTERS**

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### **USE OF CONSULTANTS**

Many school districts in the State hired consultants to manage the Program. During the period of our review, State officials indicated consultants were paid a percentage of the total amount billed by the school district. According to State officials, the percentage ranged from a low of 3.75 percent to a high of 20 percent. This type of payment arrangement may increase the risk of claims being submitted that were not properly scrutinized for unallowable costs.

One of the three school districts we visited used a consultant. We found school officials at this district were not aware of the procedures to properly determine and report accurate administrative costs. The school district relied almost entirely on the consultant to calculate the claim and

submit it to the State. School officials were neither aware of the methodology used to claim, nor the allowability of overhead costs that were claimed.

## **DISTRICT'S USE OF FUNDS**

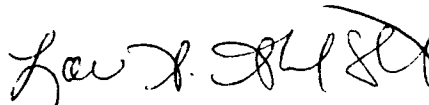
For the three school districts reviewed, we found that the districts received all of the money claimed for the Program in SFY 2000 and there were no additional transfers between the districts and the State. We found the school districts used the majority of the funds received for a variety of activities, including hiring additional health clerks, upgrading student computer facilities, and providing after-school and summer educational programs for low-performing and at-risk students. The remainder of funds received was expended through school district-wide budget accounts for district-wide support activities.

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR part 5.)

To facilitate identification, please refer to Common Identification Number A-10-01-00011 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand".

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

# APPENDIX



STATE OF WASHINGTON  
DEPARTMENT OF SOCIAL AND HEALTH SERVICES  
PO Box 45500 • Olympia WA 98504-5500

April 8, 2002

Lori A. Ahlstrand, Regional Inspector General for Audit Services  
Department of Health & Human Services  
Office of the Inspector General  
Region IX Office of Audit Services  
50 United Nations Plaza, Room 171  
San Francisco, CA 94102

Dear Ms. Ahlstrand:

**RE: Draft Audit Report with Common Identification Number A-10-01-00011**

Enclosed is the Department of Social and Health Services, Medical Assistance Administration's (MAA) response to your office's draft audit report titled, "Review of Washington State's Administrative Costs Claimed for Medicaid School-Based Health Services in State Fiscal Year 2000."

While MAA concurs in some areas, we strongly disagree with other findings and recommendations and have addressed those issues in our response.

The MAA audit response is organized with a summary overview followed by the main body. Each audit finding is identified with related recommendations followed by a response section. The MAA audit response concludes with comments regarding the Other Matters section.

MAA appreciates the opportunity to comment on the draft audit report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Tom Bedell".

Thomas W. Bedell, Deputy Assistant Secretary  
Medical Assistance Administration

Cc: OAS  
Mariann Schols  
Diane Weeden

Common Identification Number: A-10-01-00011

**SUMMARY OF  
WASHINGTON STATE'S AUDIT RESPONSE**

The following is a summary of the response from the Washington State Department of Social and Health Services, Medical Assistance Administration (MAA) to the Office of Inspector General audit report of Medicaid administrative costs claimed for school-based services.

- **FINDING:** Unallowable overhead costs claimed resulting in an overpayment of \$527,102 in federal financial participation.

**RECOMMENDATION:** Refund the federal matching funds of \$527,102 for the payments of unallowable overhead costs. Recalculate the claims for SFYs 2000 and 2001 and refund any amounts claimed in excess of reasonable overhead rates. Ensure overhead costs claimed are allowable, allocable, and reasonable.

**Response:** MAA agrees with this finding. In the school districts audited, a portion of the overhead costs was erroneously billed to Centers for Medicare and Medicaid Services (CMS), when the districts miscalculated their overhead.

- **FINDING:** Claims for reimbursement were not allocated based on the Medicaid-eligible populations at each school district.

**RECOMMENDATION:** Ensure costs allocated to the Medicaid program are based on the actual Medicaid population at each school district. Recalculate the claims for SFYs 2000 and 2001 and refund any amounts claimed due to improper cost allocations to the Medicaid-eligible population at each school district.

**Response:** MAA disagrees with the finding. MAA allocates costs based on a methodology agreed to by Region X CMS for determining the Medicaid population ratio for each school district. During discussions regarding methodologies to determine the Medicaid population ratio, CMS staff agreed to the use of the elementary free and reduced lunch rate as the Medicaid population ratio.

States have had limited guidance in developing their administrative claiming programs. The 1997 Health Care Financing Administration (HCFA) booklet "Medicaid and School Health: A Technical Assistance Guide" leaves methodologies for determining the Medicaid population ratio open to interpretation. The "Medicaid School-Based Administrative Claiming Guide" seemingly was intended to provide more specific guidance to states, but is still a draft with unresolved issues and not an official federal guideline.



MAA strongly disagrees with the recommendation to recalculate and refund any money related to Medicaid-eligible population ratios for the following reasons:

- As stated above, the "Medicaid School-Based Administrative Claiming Guide" is still a draft with unresolved issues.
  - Recalculation for the period cited would require retroactive implementation of guidance that was not available at the time and continues to be unclear and only in draft form.
  - CMS saw our State "School Administrative Match Program Manual" and boilerplate interagency agreement on several occasions and did not indicate any problem with them. The lack of a recommendation for change led MAA to believe that MAA was in compliance with federal regulations in its administrative claiming program.
  - Any recalculation of the Medicaid population ratio by individual student name is not possible because the data are not available:
    - ◆ The school district student-specific enrollment information for SFY 2000 and 2001 is unavailable.
    - ◆ MAA organizes Medicaid-eligible statistical information by county and has no method for definitively organizing it by school district.
    - ◆ MAA can develop client eligibility information by zip code, but zip codes do not conform to school district boundaries.
  - There is no basis for recalculation in that any outcome resulting from a recalculation would be no more accurate than the original claim since the current method bears a direct correlation to Medicaid eligibility for each school district.
- **FINDING:** Inadequate review to ensure the time studies performed at the school districts were conducted and completed in accordance with program requirements.

**RECOMMENDATION:** Ensure time studies are properly conducted and reviewed in accordance with the State "School Administrative Match Program Manual."

**Response:** MAA agrees that increased reviews and further training of school district staff would ensure a more complete understanding of program fundamentals and more accurately completed time studies.

Common Identification Number: A-10-01-00011

### **WASHINGTON STATE'S AUDIT RESPONSE**

The following is the response from the Department of Social and Health Services, Medical Assistance Administration (MAA) to the Department of Health and Human Services, Office of Inspector General's draft audit report. The response is to the February 11, 2002 report titled, "Review of Washington State's Administrative Costs Claimed for Medicaid School-Based Health Services in State Fiscal Year 2000" with the Common Identification Number A-10-01-00011.

#### **FINDINGS AND RESPONSES:**

MAA disagrees with the statement that the school-based health services administrative match program was improperly implemented. Rather than improper implementation, the cited issues represent:

- 1) Errors in standard accounting procedures by individual school districts led to \$527,102 in unallowable overhead costs claimed.
- 2) A difference of opinion between the auditors and MAA on the allowable methodology for determining the Medicaid population ratio.
- 3) The need for more staff training at the local level even though the State required each school district to attend State provided training on the use of time studies prior to program participation.

#### **FINDING: Overhead**

Unallowable overhead costs claimed resulting in an overpayment of \$527,102 in federal financial participation.

**RECOMMENDATION:** Refund the federal matching funds of \$527,102 for the payments of unallowable overhead costs. Recalculate the claims for SFYs 2000 and 2001 and refund any amounts claimed in excess of reasonable overhead rates. Ensure overhead costs claimed are allowable, allocable, and reasonable.

**Response:** MAA agrees with this finding. In the school districts audited, a portion of the overhead costs was erroneously billed to Centers for Medicare and Medicaid Services (CMS), when the districts miscalculated their overhead.

#### **FINDING: Medicaid Population Ratio**

Claims for reimbursement were not allocated based on the Medicaid-eligible populations at each school district.

**RECOMMENDATION:** Ensure costs allocated to the Medicaid program are based on the actual Medicaid population at each school district. Recalculate the claims for SFYs

2000 and 2001 and refund any amounts claimed due to improper cost allocations to the Medicaid-eligible population at each school district.

**Response:** MAA disagrees with the finding. MAA allocates costs based on a methodology agreed to by Region X CMS. In determining the Medicaid population ratio for each school district, the methodology has a direct relationship to those individuals that may be eligible for Medicaid benefits.

- **The District-wide and Elementary Free and Reduced Lunch Rates**

In the early 1990s, when Washington State initially developed and started to implement an administrative match program, Medical Assistance Administration (MAA) received input from the Region X CMS (then Health Care Financing Administration). A method for determining each school district's Medicaid population ratio was a major point of discussion. Schools did not have access to the Medicaid eligibility status of each student. Not all schools had computers and the schools' and MAA's computer systems were not compatible for data exchanges. Also, student-specific data were not consistently the same in the school system as in the Medicaid program, which would have made data match outcomes unreliable. Excessive amounts of staff time, unreliable data, and necessary equipment costs to design, build and maintain a data exchange system with even a minimal level of validity made such a project impossible. Since performing a match list comparison between school districts' enrollment lists and the Medicaid enrollment list was not possible, alternative methods for determining the Medicaid population ratio for each school district were explored with Region X CMS staff.

During discussions regarding possible methodologies to determine the Medicaid population ratio, Region X CMS staff agreed to the use of the elementary free and reduced lunch rate as the Medicaid population ratio. Use of the school free and reduced lunch program has a direct relationship to the Medicaid Population ratio because anyone qualifying for the free and reduced lunch program would automatically meet income eligibility limits for Medicaid. The free and reduced lunch program covers children up to 185% of the poverty level where Washington State MAA covers more children, up to 200% of the federal poverty level. The methodology recognized that the free and reduced lunch rate at the elementary school level even more accurately reflected the poverty rate, on the premise that older children often do not apply for free and reduced lunch even though they qualify.

States have had little guidance in developing their administrative claiming programs. The 1997 HCFA booklet "Medicaid and School Health: A Technical Assistance Guide" leaves methodologies for determining the Medicaid population ratio open to interpretation.

The February 2000 draft, "Medicaid School-Based Administrative Claiming Guide" provided clarification on the methodology for determining the Medicaid population ratio; however, the federal report was and continues to be in draft form only. MAA

submitted comments, as requested, on the draft version and MAA was aware that many school districts, other states, and children's advocates were also commenting on the draft report. CMS stated that they intended to release the guide in final once all the outstanding issues had been addressed. As such, MAA reasonably believed there would be significant differences between the draft and final version of the administrative claiming guide. MAA anticipated making appropriate program changes once the guide was finalized. To date, the guide remains in draft form and a response to comments on the guide has not been issued by CMS. It is unreasonable to hold MAA accountable to a draft federal guideline when MAA had previously obtained agreement to our Medicaid population ratio methodology from CMS.

In addition to the draft status of the administrative claiming guide, the timing of the draft guide precludes applying it for state fiscal year 2000 (July 1, 1999 to June 30, 2000) as it would have required retroactive application. The draft guide was not made available for public comment until February of 2000 and the comment period extended into April of 2000.

CMS Region X staff saw our State "School Administrative Match Program Manual" and boilerplate interagency agreement on several occasions and did not indicate any problem with them. CMS performed a site visit in 2000 to familiarize themselves with our policies in both our special education and administrative claiming programs. As a result, they recommended a policy change on our special education program, which was immediately implemented by MAA. CMS made no recommendations for change to our administrative claiming program. The lack of a recommendation for change led MAA to believe that MAA was in compliance with federal regulations in its administrative claiming program.

Not only does MAA disagree with the recommendation, but it is impossible to recalculate the Medicaid population ratio by individual student name in that:

- The school district student-specific enrollment information for SFY 2000 and 2001 is unavailable.
- MAA organizes Medicaid-eligible statistical information by county and has no method for definitively organizing it by school district.
- MAA can develop client eligibility information by zip code, but zip codes do not conform to school district boundaries.

For each school district, matching individual children, by name, with the Medicaid eligible list is not currently possible and is cost prohibitive. To date, the school free and reduced lunch data methodology is the most accurate correlation to the school district's Medicaid eligible population. It is well documented and applied without disproportionate administrative costs to the data that is collected. No better workable methodology has been identified by any party – auditors, CMS, nor State staff. There is no basis for recalculation in that any outcome resulting from a recalculation would be no more accurate than the original claim since the current method bears a direct correlation to Medicaid eligibility for each school district.

In lieu of the school free and reduced lunch method, a few school districts chose one of the following three options allowed by MAA in determining the Medicaid population ratio. Each of these options has a direct correlation to the school district's Medicaid eligible population as follows:

- **County-wide Percent of Poverty**

Use of the county poverty factor was based upon MAA generated data. The Medicaid population ratio was determined by comparing county child population data and Medicaid-eligibility. Based on the comparison, MAA identified the percent of children in each county who were Medicaid-eligible. Because a school district generally falls within a single county and serves a cross-section of all children, the county poverty factor is reflective of the school district Medicaid population ratio. Most school districts, however, use free and reduced lunch data because these data are reflective of only the portion of the county population that is served by that district.

- **100 Percent for Targeted Students**

The Early Childhood Education program generally uses the targeted Medicaid population methodology. By definition of their program, the family income for children in the early childhood program was below the income level required to qualify for Medicaid coverage. Because this program only serves children who are income-eligible for Medicaid, it is appropriate to treat them as a targeted population.

- **Other Reasonable Methodology**

The reasonable and documented Medicaid population ratio methodology was used rarely and only in specific, small school programs that served a disproportionate percentage of Medicaid children. The school had to develop a specific methodology for determining the Medicaid eligible population.

**FINDING: Time Studies**

Inadequate review to ensure the time studies performed at the school districts were conducted and completed in accordance with program requirements.

**Response:** MAA agrees that increased reviews and further training of school district staff would ensure a more complete understanding of program fundamentals and more accurately completed time studies.

**OTHER MATTERS:**

**Use of Consultants:**

MAA enters into Medicaid administrative claiming agreements with individual school districts and holds each district accountable for its own contractual agreement with MAA.

Prior to each district's participation in the program, the State requires district administrative staff to attend State provided training on administrative claiming. Each school district administration needs to be aware of program expectations and requirements before MAA will enter into an agreement with their district.

During program implementation each school district has the option to either administer it's own program or use the services of one of several consultants working in our state. MAA does not endorse individual consultants or consulting firms and the use of consultants is completely at the discretion of the school district. Consultants are accountable to the individual school districts hiring them. Consultant costs are not included in administrative claims.

**District's Use of Funds:**

The school district that performed the Medicaid administrative claiming activities received the reimbursement money and the money was spent at the discretion of that district's administrators. The district performed the reimbursable activities totally at their own expense. Then, the district received federal reimbursement to offset some of their costs based on activity tracking documents and the determination of related costs. Since the activities had already been provided and paid for by the school district, it was appropriate that the school district decide how the reimbursement was to be spent to benefit school programs.